

**PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

**Telecommunications Division  
Public Programs Branch \***

**RESOLUTION T-16554  
October 25, 2001**

**R E S O L U T I O N**

RESOLUTION T-16554. APPROVAL OF THE CALIFORNIA HIGH COST FUND-B BUDGET AND SURCHARGE RATE FOR FISCAL YEAR 2002-03.

BY LETTER REQUEST TO THE EXECUTIVE DIRECTOR DATED MAY 15, 2001.

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**S U M M A R Y**

On May 15, 2001, the California High Cost Fund - B (CHCF-B) Administrative Committee (AC) filed with the Executive Director of the Public Utilities Commission its proposed budget for Fiscal Year (FY) 2002-03. This resolution approves the budget of \$535.018 million and a surcharge rate of 1.42% for the CHCF-B for FY 2002-03.

The California Legislature passed Senate Bill (SB) 669 and the Governor signed SB 669 in October 1999. The provisions of SB 669, as amended by SB 742 in 2001, were implemented on October 1, 2001 with the establishment of the CHCF-B Administrative Committee Fund (AC Fund) and the transfer of the CHCF-B fund and four other program funds with the State Treasury. Since the CHCF-B AC Fund must be part of the fiscal year State Budget process, the Commission, by approving this budget resolution on a fiscal year basis, will conform to the State Budget process for FY 2002-03.

**B A C K G R O U N D**

The AC's May 15, 2001 letter request sought approval of the budget of \$563.825 million and a CHCF-B surcharge at 2.6% for FY 2002-03. That budget request was filed in compliance with Ordering Paragraph 7 of Resolution T-16430, dated September 21, 2000. In its letter request, the AC indicated that its FY 2002-03 budget was a forecast that took into consideration the FY 2001-02 budget that was adopted by the Commission in Resolution T-16430.

1. Decision 96-10-066

In Decision (D) 96-10-066, the Commission established the CHCF-B program to provide universal service subsidy support in the high cost areas of the service territories of Pacific Bell (Pacific), GTE California, Inc. (GTEC), <sup>1</sup> GTE Contel of California (GTE-Contel), Roseville Telephone Company (Roseville), Citizens Telecommunications Company of California (Citizens), and new carriers that become Carriers of Last Resort (COLR). <sup>2</sup> Further, the CHCF-B program enables these carriers to reduce their rates for those services that implicitly subsidize residential service in high cost areas. The CHCF-B program is funded by an All End User Surcharge on intrastate billings. D.96-10-066 established a 2.87% surcharge rate that was intended to raise \$352.8 million per year to fund the CHCF-B program.

2. Decision 98-06-065

In D. 98-06-065, the Commission established the requirement for the AC to file its proposed budget and adjustment to the surcharge level for the following calendar year for the CHCF-B program by October 1 of each year. However, Ordering Paragraph 24 of D.98-06-065 delayed this requirement until October 1, 1999. Nevertheless, the AC did file a 1999 budget on October 1, 1998 that was adopted by the Commission in Resolution T-16244, dated December 3, 1998. On September 30, 1999, the AC filed its CHCF-B program budget and surcharge level for the year 2000. The Commission adopted the CHCF-B 2000 budget and surcharge rate by Resolution T-16365, dated December 2, 1999.

3. Resolution T-16430

In Resolution T-16430, dated September 21, 2000, the Commission adopted the FY 2001-02 CHCF-B budget. In Resolution T-16430, the Commission approved the following: (a) a total ULTS program budget of \$482.767 million, (b) a surcharge rate of 2.6%, effective July 1, 2001 and (c) projected fund balance of \$186.891 million. Expense estimates relating to the implementation of Public Utilities (P.U.) Code Sections 270, et al, known at that time were also adopted.

4. Resolution T-16585

In Resolution T-16585, dated October 11, 2001, the Commission approved a revised FY 2001-02 CHCF-B budget of \$972.872 million and a surcharge rate of 1.47%, effective November 1, 2001 until revised by the Commission. The revised FY 2001-02 CHCF-B budget incorporated the State Budget approval of program expenses associated with

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<sup>1</sup> At the issuance of D.96-10-066, GTE California and GTE Contel (former Contel of California) operated as separate companies and were designated to receive subsidy for providing services in high cost areas. On July 1, 2000, GTE Corporation changed its corporate name to Verizon Communications Corporation.

<sup>2</sup> COX Communications was approved as a COLR on December 8, 1999 and the company has been filing claims from the CHCF-B since December 1999.

the implementation of Public Utilities (PU) Code 270 through 281 (Chapter 1.5 to Part 1, Division 1 of the PU Code).

5. PU Code Sections 270 et al.

The California Legislature passed SB 669 and the Governor signed SB 669 in October 1999. The provisions of SB 669, as amended by SB 742 in 2001, are codified as Chapter 1.5 (beginning with Section 270) to Part I, Division 1 of the PU Code. PU Code Section 270 provides for the creation of the CHCF-B Administrative Committee Fund and five other funds in the State Treasury. The following are the major requirements of SB 669, as amended by SB 742, which have been included in the PU Code:

- a. Section 276(a) provides for the creation of the CHCF-B Administrative Committee (an advisory board) to develop, to implement, and to administer the CHCF-B program.
- b. Section 276 (b) provides that all revenues collected by the telecommunications carriers authorized by the Commission to fund the CHCF-B program shall be submitted to the Commission on a schedule established by the Commission. Beginning on October 1, 2001, and thereafter, the Commission shall transfer the money received and all unexpended revenues collected prior to October 1, 2001 to the Controller for deposit in the CHCF-B Administrative Committee Fund. All interest earned by moneys in the fund shall be deposited in the fund.
- c. Section 273(a) provides that the created CHCF-B advisory board submits an annual budget to the Commission, who shall act on the submitted budget within ninety calendar days after receipt of the CHCF-B budget.
- d. Section 274 provides for the financial and compliance audits of the CHCF-B program costs and activities at least once every three years, beginning July 1, 2002.

6. Administrative Committee's FY 2002-03 Budget and Surcharge Level

Column B of Attachment A of this resolution sets forth the AC's proposed FY 2002-03 budget for the CHCF-B program. For FY 2002-03, based on a surcharge rate of 2.6%, the AC projects revenue of \$516.040 million. No investment income was assumed since all funds will be transferred to the State Treasury pursuant to implementation of P. U. Code Section 276(b). The total program expenses are projected at \$563.825 million and include program payments of \$561.000 million and administrative expenses of \$2.825 million. The proposed FY 2002-03 budget will result in a fund balance of \$139.106 million at the end of FY 2002-03. That reserve amount will be used to provide funds to

cover possible changes in the Federal offset computations and other program costs of the CHCF-B program in FY 2002-03.<sup>3</sup> It should be noted that should there be a need to adjust the 2.6 % surcharge rate, the AC will file an amended budget and proposed revised surcharge rate.

### **NOTICE/PROTESTS**

Notice of the AC's budget Letter Request was first published in the Commission Daily Calendar of May 17, 2001. No protest to this Letter Request has been received.

### **BUDGET FILING PROCESS**

To comply with the requirements of the PU Code Section 273 (a), the CHCF-B AC must submit a proposed budget through a letter request to the Commission on or before June 1 (or the next business day if June 1 is not a business day). The Commission has ninety (90) days to approve the proposed CHCF-B budget since the Commission must submit a Budget Change Proposal for the CHCF-B program to the Department of Finance (DOF) by September 1. In order for the Commission to fulfill this obligation in a timely manner in the year 2002, the Commission will require the CHCF-B Administrative Committee to file by June 1, 2002 (or the next business day if June 1 is not a business day) a proposed budget and a proposed surcharge level for fiscal year 2003 – 2004 for Commission approval.

In future years under the provisions of PU Code Section 277(b), if the State budget, which includes the CHCF-B budget expenses, is not adopted by the Legislature and signed by the Governor on or before the beginning of the fiscal year, payments for any CHCF-B related claims and other expenses, including contracts, will not be paid. Thus, the CHCF-B claim payments to carriers and other payments are contingent on approval of a state budget.

By approving this resolution on a fiscal year basis, the Commission will conform to the State Budget process in October 2001.

### **DISCUSSION**

Telecommunications Division (TD) staff recommends that the Commission adopt a budget for FY 2002-03 consisting of \$535.018 million in expenses. The TD staff has also projected the cash flow for FY 2002-03 based upon the adopted FY 2001-02 budget in Resolution T-16585 and projected revenue and expenses. The adopted FY 2001-02

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<sup>3</sup> The Commission in D.96-10-066 required a review of the CHCF-B program every three years. Any program changes adopted by the Commission that would increase program costs may be partially offset by the reserve amount.

budget was revised to reflect the adopted State of California budget adopted by the Legislature and signed by the Governor.

Based on the TD staff projections, the CHCF-B fund balance at the end of FY 2002-03 is \$40.536 million. Column C of Attachment A of this Resolution displays the projected FY 2002-03 cash flows. The adopted budget does not include any projected investment income since all funds will be transferred to the State Treasury pursuant to implementation of P.U. Code Section 276(b). A discussion of the adopted budget follows.

1. FY 2002-03 Budget Expenses

The adopted FY 2002-03 budget projects total program expenses of \$535.018 million for the CHCF-B program. These include \$531 million in claim payments; \$1.810 million for program/financial, claims, compliance and remittance audits; and \$2.208 million in expenses relating to implementation of P. U. Code Section 276(b). The adopted budget is \$28.8 million less than the AC's proposed budget of \$563.825 million because of no funding reserve for possible reduction for the federal support for universal services and lower forecasted costs for financial and surcharge remittance audits. These reductions are offset by the inclusion of \$2.208 million for the implementation of P.U. Code Section 276(b). This includes expenses for Inter-Agency, Lock Box, and administrative and staffing expenses and other related costs.

The program payments of \$531 million reflect TD's projection of limited growth in access lines for the five carriers, or the carryover claims from prior years, including year 2001 claims. If claims for years 1997 through 2001 are not paid by TD, then these amounts will be paid during the first six-months of year 2002 using the prior year adopted budgeted amounts. TD anticipates that carry over claims from February 1997 through June 30, 2001 and FY 2001-02 claims will be paid in FY 2001-02.

The program payments include \$1.0 million for estimated interest payments for FY 2002-03 to carriers for claims not approved in a timely manner by the TD.

The adopted FY 2002-03 program audit amount of \$1.8 million includes \$0.01 million for financial audits, \$0.9 million for claims audits, \$0.4 million for carrier remittance audits, and \$0.5 million for compliance audit of the entire program. These audits of the program-related costs and activities are needed to ensure the financial integrity of the CHCF-B program.

2. FY 2002-03 Surcharge Rate Level and Year-End Fund Reserve Balance

The adopted FY 2002-03 budget assumes a surcharge rate of 1.42%, a reduction of 0.05% surcharge rate from 1.47% adopted in the revised FY 2001-02 budget. The reduction in

CHCF-B surcharge rate of 0.05% for fiscal year 2002-03 is to offset the increase in surcharge rate in the CHCF-A fund due to the implementation of Assembly Bill (AB) 140, Rural Telecommunications Infrastructure <sup>4</sup> to ratepayers.

The CHCF-B surcharge rate of 1.42% will generate \$240.397 million in surcharge remittance revenues for FY 2002-03. The surcharge remittance revenue is based upon a lower billing base of \$15,873 million from the previously proposed billing base of \$19,847 million for FY 2002-03. Based on the sharp downturn of the telecommunications revenues subject to surcharges reported to the Commission by telecommunications carriers in recent months and the growing concerns about the health of the national economy, the estimated telecommunications revenues subject to surcharges were revised to \$15,181 million for FY 2001-2002, as adopted in Resolution T-16585, dated October 10, 2001. The revised forecast for FY 01-02 was based on the average reported telecommunications revenues subject to surcharges in recent months, annualized compounded by a reduction of \$411 million. This \$411 million adjustment reflects the anticipated amount of “catch-up” surcredits that will be implemented by Pacific Bell and Roseville Telephone Company during FY 01-02 pursuant to D.98-11-039. The revised forecast for FY 02-03 of \$15,873 million represents a growth rate of 1.8% (UCLA Anderson Forecast, September 17, 2001) from FY 01-02.

The adoption of a surcharge rate of 1.42% will result in funding the CHCF-B total expenses of \$535.018 million for FY 2002-03, and will leave an estimated fund balance of \$40.536 million on June 30, 2003.

### **NOTICE TO OTHER CARRIERS AND ADVICE LETTER FILING**

In Resolution T-15558 (dated June 8, 1994) we waived the notice requirements of General Order 96-A, Section III, G.1, to furnish competing utilities either public or private copies of related tariff sheets. We did so because it did not appear to be in the public's interest for each utility to send and receive over two hundred notices advising them of regulatory changes about which they already know. Since that time, nothing has happened to change our opinion, so we will waive this notice requirement for tariff changes, which comply with this resolution.

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<sup>4</sup> AB 140 (Strom-Martin, 2001) adds Section 276.5 to the P.U. Code 276.5. AB 140 establishes a grant program for the construction of telecommunications infrastructure in unserved areas of the state. The bill authorizes the Commission to approve grants totaling up to 10 million per year for four years, to be funded through either the CHCF-A or CHCF-B. However, in the FY 2002-03, it is expected that only the CHCF-A will be an eligible funding source because of restrictions in the bill on the use of CHCF-B funds until certain issues are resolved by the United States Supreme Court and the CPUC. See P.U. Code 270(b), as amended by AB 140. In a companion Resolution T-16550 to be decided today, we authorize a slight increase in the CHCF-A surcharge to fund the FY 2002-03 grants. By this resolution, we reduce the CHCF-B surcharge by an equivalent amount in order to reflect the CHCF-A surcharge increase.

The TD oversees the administration of eight public programs. The surcharge rates of one or more of these programs will be revised on July 1, 2002 and will remain effective until further revised again by the Commission. For administrative efficiency, we will allow all telecommunications utilities that are subject to the surcharges for these various programs to file concurrently revised tariff schedules in compliance with resolutions and decisions revising these surcharges in accordance with the provisions of G.O. 96 on or before June 14, 2002. These advice letters shall become effective on July 1, 2002 and will remain effective until revised again by the Commission.

### **NOTICE OF AVAILABILITY OF CONFORMED RESOLUTION**

In the past, the Commission has served a hard copy of this resolution on all telecommunications carriers and parties on the service list of I.95-01-021. To be consistent with the Commission's commitment to utilize the Internet for distributing Commission orders and information, the TD has informed the telecommunications carriers of the availability of the draft resolution as well as the conformed resolution, when adopted by the Commission, on the Commission website, [www.cpuc.ca.gov](http://www.cpuc.ca.gov). In addition, hard copies of the conformed resolution will be provided to all parties of record in R.95-01-020 / I. 95-01-021 and all carriers who have filed CHCF-B claims.

### **COMMENTS**

The draft resolution of the TD in this matter was mailed on July 24, 2001 in accordance with PU Code Section 311(g) to the parties of record in R.95-01-020 / I. 95-01-021. A letter was mailed to all telecommunications carriers advising them of the availability of this draft resolution on the Commission's web site, [www.cpuc.ca.gov](http://www.cpuc.ca.gov). No comments were received by TD regarding this resolution.

### **FINDINGS**

1. A budget for Fiscal Year (FY) 2002-03 for the California High Cost Fund-B (CHCF-B) of \$535.018 million, as set forth in Attachment A of this resolution, is reasonable and should be adopted.
2. An estimated reserve balance of \$40.536 million by the end of June 2003 is reasonable for the CHCF-B and should be adopted.
3. The surcharge level of 1.42% is reasonable and should be adopted for FY 2002-03 for the CHCF-B program.
4. Public Utilities Code Section 276(b) requires the CHCF-B and other program funds to be deposited into the State Treasury.

5. The CHCF-B Administrative Committee should file a proposed FY 2003-04 budget and a proposed surcharge level for FY 2003-04 for Commission approval on or before June 1, 2002 (or the next business day if June 1 is not a business day).
6. The Commission is committed to utilizing the Internet for distributing Commission orders and information.
7. The draft of this resolution was mailed to the parties of record in R.95-01-020/I.95-01-021 on July 24, 2001. A copy of the cover letter of that mailing was also sent to each of the Commission certificated telecommunications carriers advising them of the availability of this draft resolution and the conformed resolution, when adopted by the Commission, on the Commission's web site.
8. For administrative efficiency, it is reasonable to allow all telecommunications utilities that are subject to the various public program surcharges to file concurrently revised tariff schedules in compliance with the resolutions and decisions revising these surcharges in accordance with the provisions of General Order 96-A on or before June 14, 2002. Such filings will become effective July 1, 2002 and remain in effect unless further revised by the Commission.
9. Since nothing has happened since the time the Commission waived the notice requirements of G.O. 96-A, Section III, G.1 (Resolution T-15558 dated June 8, 1994), the notice requirement for tariff changes complying with this resolution will continue to be waived.

**THEREFORE, IT IS ORDERED that:**

1. A budget of \$535.018 million for Fiscal Year (FY) 2002-03, as set forth in Attachment A of this Resolution, is adopted for the California High Cost Fund-B (CHCF-B) program.
2. A 1.42% surcharge rate to fund the CHCF-B program is adopted for FY 2002-03. That surcharge rate will apply to all surchargeable intrastate billings rendered on or after July 1, 2002. This surcharge rate shall continue until further revised by the Commission.
3. All telecommunications carriers who are required to collect the CHCF-B surcharges shall collect a 1.42 % surcharge for FY 2002-03 on service rates and charges of all intrastate end user services, except for those that have been specifically excluded to fund the CHCF-B program.



4. The CHCF-B Administrative Committee shall file a proposed FY 2003-04 budget and a proposed surcharge level for FY 2003-04 for Commission approval on or before June 1, 2002 (or the next business day if June 1 is not a business day).
5. A revised surcharge level of 1.42% for the CHCF-B program shall take effect on July 1, 2002 and remain in effect until revised by the Commission. All certificated telecommunications carriers in California shall apply this surcharge rate on their end-users' bills rendered on or after July 1, 2002. All certificated telecommunications carriers required to file tariffs with the Commission shall file advice letters by July 14, 2002 revising the CHCF-B surcharge consistent with this Resolution.
6. All telecommunications carriers who are required to collect the surcharges for the various public programs may concurrently file revised tariff schedules in compliance with the resolutions or decisions revising these surcharges by advice letters in accordance with the provisions of General Order 96 on or before June 14, 2002. The advice letter shall become effective July 1, 2002 and remain in effect until further revised by the Commission.
7. All Local Exchange Companies (LECs) and Interexchange Companies (IECs) are granted an exemption from the noticing requirement of General Order 96, for surcharge changes resulting from this resolution only.

This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on October 25, 2001. The following Commissioners approved it:

/s/ WESLEY M. FRANKLIN

WESLEY M. FRANKLIN  
Executive Director

LORETTA M. LYNCH  
President  
HENRY M. DUQUE  
RICHARD A. BILAS  
CARL W. WOOD  
GEOFFREY F. BROWN

Commissioners

## APPENDIX A

CALIFORNIA HIGH COST FUND-B ADMINISTRATIVE COMMITTEE FUND				
PROGRAM BUDGET FOR FISCAL YEAR 2002 - 03				
	A	B	C	D
	FY 2001-02 Adopted (Res T-16505)	FY 2002-03 ADMIN COMM PROPOSED	Adopted (Res T-16554)	NOTE
<b>1 BEGINNING FUND BALANCE</b>	<b>1,001,549</b>	<b>186,891</b>	<b>335,157</b>	
<b>REVENUES</b>				
2 PROJECTED ANNUAL BILLING BASE	15,181,000	19,847,690	15,873,000	
3 SURCHARGE RATE	2.000%	2.600%	1.420%	1
4 SURCHARGE REVENUE (L2 X L3)/12	303,620	516,040	225,397	
<b>OTHER INCOME</b>				
5 INVESTMENT INCOME	2,860	-	-	2
6 INTEREST / LOAN REPAYMENT	-	-	15,000	9
7 PENALTY	-	-	-	
8 TOTAL OTHER INCOME (L5 THROUGH L8)	2,860	-	15,000	
<b>9 TOTAL REVENUE (L5 THROUGH L8)</b>	<b>306,480</b>	<b>516,040</b>	<b>240,397</b>	
<b>PROGRAM EXPENSES</b>				
10a CLAIM PAYMENTS	544,316	530,000	530,000	3,4,5
10b CARRY-OVER CLAIMS	411,000	-	-	
11 LOAN TO DDTP	15,000	-	-	8
12 INTEREST PAYMENT	1,000	1,000	1,000	6
13 OFFSET IN REDUCTION OF FEDERAL SUPPORT	-	30,000	-	
14 TOTAL PAYMENTS (L10 THROUGH L13)	971,316	561,000	531,000	
<b>AUDITS</b>				
15 FINANCIAL AUDIT	10	500	10	
16 COMPLIANCE AUDIT	-	500	500	
17 REMITTANCE AUDIT	600	600	400	
18 CARRIER CLAIMS AUDIT	540	900	900	
19 TOTAL AUDITS (L15 THROUGH L18)	1,150	2,500	1,810	
<b>BANKING FEES</b>				
20 TRUST	222	-	-	
21 LOCKBOX	14	-	18	
22 TOTAL BANKING FEES (L20 + L21)	236	-	18	
<b>COMMITTEE EXPENSES</b>				
23 PER DIEM	3	-	4	
24 TRAVEL & OTHER EXPENSES	4	-	5	
25 TOTAL COMMITTEE EXPENSES (L23+L24)	7	-	9	
<b>26 TOTAL PROGRAM EXPENSES (L14+L19+L22+L25)</b>	<b>972,709</b>	<b>563,500</b>	<b>532,837</b>	
<b>ADMIN/STAFF</b>				
27 EXTERNAL STAFF & RELATED EXPENSES	-	-	-	
28 ALL OTHER EXTERNAL OPERATING EXPENSES	-	-	-	
29 SB 669 INTERNAL STAFF	163	325	151	7
30 TOTAL ADMIN/STAFF (L26 THROUGH L28)	163	325	151	
31 INTERAGENCY COST	-	-	2,030	
<b>32 TOTAL EXPENSES (L26+L30+L31)</b>	<b>972,872</b>	<b>563,825</b>	<b>535,018</b>	
<b>33 PROJECTED ENDING BALANCE (L1+L9-L32)</b>	<b>335,157</b>	<b>139,106</b>	<b>40,536</b>	
<b>Notes</b>				
1 Surcharge rates are as follows:				
a. July 1, 2001 through October 31, 2001 is 2.6%				
b. November 1, 2001 through June 30, 2002 is 1.47%				
c. July 1, 2002 through June 30, 2003 is 1.42%				
2 No investment income is assumed after October 1, 2001, since all funds will be transferred to the State Treasury.				
3 Includes \$11.5 million payment to Roseville pursuant to Decision (D.) 00-11-039, Ordering Paragraph #2.				
4 Includes estimated claim payments to Pacific Bell, Verizon of California, Citizens Telecommunications Company of California and COK Communications.				
5 Cash flow projections assume carriers filing timely claims with appropriate supporting documents and workpapers.				
6 D. 98-01-023 ordered that interest be paid to carriers whose claims are not processed within the prescribed time.				
7 Portion of the amount includes Bldg. Addition for MSD staff allocated to this program.				
8 Loan of \$15 million to the DDTP in September 2001.				
9 Loan to DDTP is assumed to be paid back to the CHCF-B on July 1, 2002 pursuant to SB 742, Section 276(b).				